

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
D/B/A LANE MEMORIAL HOSPITAL**

Audited Financial Statements

Years Ended June 30, 2001 and 2000

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 1/2/02

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INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners
Hospital Service District No. 1 of
East Baton Rouge Parish, Louisiana
d/b/a Lane Memorial Hospital

We have audited the accompanying balance sheet of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana (d/b/a Lane Memorial Hospital) a component unit of the City - Parish of Baton Rouge, as of June 30, 2001, and the related statements of operations, changes in fund balance, and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana (d/b/a Lane Memorial Hospital) for the year ended June 30, 2000, before they were restated for the matter discussed in Note 11 to the financial statements, were audited by other auditors whose report, dated August 28, 2000, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2001 financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana (d/b/a Lane Memorial Hospital) as of June 30, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2001 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be read in conjunction with this report in considering the results of our audit.

We also audited the adjustment described in Note 11 that was applied to restate the 2000 financial statements. In our opinion, such adjustment is appropriate and has been properly applied.

A handwritten signature in black ink that reads "Horne CPA Group". The signature is written in a cursive, flowing style.

Jackson, Mississippi
August 17, 2001



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF THE GENERAL PURPOSE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Commissioners
Hospital Service District No. 1 of
East Baton Rouge Parish, Louisiana
d/b/a Lane Memorial Hospital

We have audited the financial statements of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana (d/b/a Lane Memorial Hospital), a component unit of the City-Parish of Baton Rouge, as of and for the year ended June 30, 2001, and have issued our report thereon dated August 17, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not the objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting.

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being

audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Commissioners, management of Lane Memorial Hospital and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties.

Horne CPA Group

Jackson, Mississippi
August 17, 2001

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Balance Sheets
June 30, 2001 and 2000

ASSETS	2001	2000 (Restated)	LIABILITIES AND FUND BALANCE	2001	2000 (Restated)
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 1,126,027	\$ 4,062,905	Current maturities of long-term debt	\$ 958,647	\$ 475,000
Certificates of deposit	7,200,000	2,750,000	Accounts payable	1,275,969	1,573,704
Short-term investments	3,651,261	3,873,504	Other current payables	546,810	617,140
Assets limited as to use	546,718	521,756	Estimated third-party payor settlements	-	1,100,109
Patient accounts receivable, net of allowances for doubtful accounts of \$1,755,386 in 2001 and \$1,682,549 in 2000	6,970,596	5,829,224	Accrued expenses	885,443	905,013
Estimated third-party payor settlements	817,778	-	Payroll withholding payables	668,993	457,440
Other receivables	203,781	62,650			
Inventories	541,322	480,101			
Other current assets	201,134	227,685			
Total Current Assets	21,258,617	17,807,825	Total Current Liabilities	4,335,862	5,128,406
Assets Limited as to Use			Long-Term Debt, Less Current Maturities	9,720,275	6,360,000
Held by trustee in accordance with bond indentures	546,718	521,756	Total Liabilities	14,056,137	11,488,406
Internally designated for future capital improvements	1,465,491	1,545,104	Unrestricted Fund Balance	37,077,663	36,518,303
Total Assets Limited as to Use	2,012,209	2,066,860			
Less amounts required to meet current liabilities	(546,718)	(521,756)			
Noncurrent Assets Limited as to Use	1,465,491	1,545,104			
Property and Equipment, net	28,339,930	28,586,894			
Other Assets					
Deferred financing costs	69,762	66,886			
Total Assets	\$ 51,133,800	\$ 48,006,709	Total Liabilities and Fund Balance	\$ 51,133,800	\$ 48,006,709

See accompanying notes.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL**
Statements of Operations
Years Ended June 30, 2001 and 2000

	2001	2000 (Restated)
Operating Revenue		
Net patient service revenue	\$ 38,726,974	\$ 34,623,357
Other operating revenue	4,739,631	4,585,027
Total Operating Revenue	<u>43,466,605</u>	<u>39,208,384</u>
Operating Expenses		
Salaries	19,253,136	17,590,917
Fringe benefits	3,007,262	2,866,886
Non-medical supplies	1,410,141	1,309,805
Medical supplies	5,001,897	4,500,814
Professional fees	1,959,902	1,855,919
Contracted services	3,128,404	2,190,691
Utilities	1,051,230	750,813
Repairs and maintenance	858,773	742,550
Insurance	494,231	407,418
Depreciation and amortization	2,174,855	2,110,118
Interest expense	439,231	256,410
Provision for doubtful accounts	3,107,791	2,864,084
Other	1,916,536	1,559,046
Total Operating expenses	<u>43,803,389</u>	<u>39,005,471</u>
Income (Loss) from Operations	<u>(336,784)</u>	<u>202,913</u>
Nonoperating Revenues (Expenses)		
Investment income	791,464	662,317
Other nonoperating revenues	238,421	333,241
Non operating expenses	(133,741)	(102,940)
Net Nonoperating Revenue (Expenses)	<u>896,144</u>	<u>892,618</u>
Excess Revenue Over Expenses	<u>\$ 559,360</u>	<u>\$ 1,095,531</u>

See accompanying notes.

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Statements of Changes in Fund Balance
Years Ended June 30, 2001 and 2000

	2001	2000 (Restated)
Fund balance, July 1 (as previously reported)	\$ 36,518,303	\$ 36,243,011
Prior Period Adjustment (Note 11)	-	(820,239)
Fund balance, June 30 (as restated)	36,518,303	35,422,772
Excess of revenues over expenses	559,360	1,095,531
Fund balance, June 30	<u>\$ 37,077,663</u>	<u>\$ 36,518,303</u>

See accompanying notes.

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL

Statements of Cash Flows

Years Ended June 30, 2001 and 2000

	2001	2000 (Restated)		2001	2000 (Restated)
Cash Flows from Operating Activities			Cash Flows from Investing Activities		
Income (loss) from operations	\$ (336,784)	\$ 202,913	Purchase of certificates of deposit	\$ (4,450,000)	\$ -
Interest expense considered capital financing activity	439,231	256,410	Investment income	791,464	662,317
Adjustments to reconcile income (loss) from operations to net cash provided by (used by) operating activities			Other nonoperating revenues	238,421	333,241
Depreciation and amortization	2,268,346	2,210,536	Other nonoperating expenses	(133,741)	(102,940)
Loss on disposals of property and equipment	47,196	23,587			
Provision for doubtful accounts	3,107,791	2,864,084	Net Cash Provided by (Used by) Investing Activities	(3,553,856)	892,618
Changes in operating assets and liabilities					
Patient accounts receivable	(4,249,163)	(2,093,325)	Decrease in Cash and Cash Equivalents	(3,213,772)	(766,316)
Estimated third-party payor settlements	(1,917,887)	(537,749)			
Other receivables	(141,131)	22,473	Cash and cash equivalents, beginning of year	10,003,269	10,769,585
Inventories	(61,221)	(39,301)	Cash and cash equivalents, end of year	\$ 6,789,497	\$ 10,003,269
Other current assets	26,551	(73,327)			
Accounts payable and other current payables	(357,854)	750,657	Reconciliation of Cash and Cash Equivalents to Balance Sheets		
Accrued expenses and payroll withholding payables	191,983	277,917	Cash	\$ 1,126,027	\$ 4,062,905
	(982,942)	3,864,875	Short-term investments	3,651,261	3,873,504
Net Cash Provided by (Used by) Operating Activities			Cash and cash equivalents in assets limited as to use Held by trustee in accordance with bond indentures	546,718	521,756
			Internally designated for future capital improvements	1,465,491	1,545,104
Cash Flows from Capital and Related Financing Activities			Total Cash and Cash Equivalents	\$ 6,789,497	\$ 10,003,269
Acquisition of property and equipment	(2,063,560)	(4,945,078)			
Proceeds from sales of property and equipment	-	261,409			
Deferred financing costs	(7,894)	-			
Proceeds from long-term debt	4,500,000	-			
Principal paid on long-term debt	(656,078)	(450,000)			
Interest paid on long-term debt	(449,442)	(390,140)			
Net Cash Provided by (Used by) Capital and Related Financing Activities	1,323,026	(5,523,809)			

See accompanying notes.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
For the Years Ended June 30, 2001 and 2000**

NOTES TO FINANCIAL STATEMENTS

Note. 1. Summary of Significant Accounting Policies

Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Memorial Hospital, (the Hospital), is a not-for-profit healthcare organization located in Zachary, Louisiana. The Hospital, which was created by the Metropolitan Council of the City of Baton Rouge and the Parish of East Baton Rouge (City-Parish) on June 12, 1957, under the provisions of Chapter 10 of Title 46 of the Louisiana Revised Statutes of 1950, provides inpatient, outpatient, and emergency care services for residents of southern Louisiana and Mississippi.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements. Such accounting and reporting procedures conform to the requirements of Louisiana Revised Statute 24:514, to the guidance set forth in the *Louisiana Governmental Accounting Guide*, and to the industry audit guide, *Audits of Health Care Organizations*, published by the American Institute of Certified Public Accountants.

The significant accounting policies used by the Hospital in preparing and presenting its financial statements are summarized as follows:

Financial Reporting Entity

Statement No. 14 of the Governmental Accounting Standards Board (GASB), *The Financial Reporting Entity*, establishes criteria for determining the governmental reporting entity and component units that should be included within the reporting entity.

Since the City-Parish appoints all of the members of the Hospital's Board of Commissioners and has the ability to impose its will on that organization, the Hospital is considered to be a component unit of the City-Parish of Baton Rouge, the financial reporting entity. The accompanying financial statements, however, present information only on the funds maintained by the Hospital and do not present information on the City-Parish, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

Additionally, the Hospital does not have any component units, which are defined by GASB Statement No. 14 as other legally separate organizations for which the elected officials are financially accountable. There are no other primary governments with which the Hospital has a significant relationship.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
For the Years Ended June 30, 2001 and 2000**

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Fund Accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Under the accrual basis of accounting, which is in accordance with accounting principles generally accepted in the United States of America for proprietary fund types, substantially all revenues and expenses are subject to accrual.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents includes all checking accounts, savings accounts, money market funds, certificates of deposit, and certain investments in highly liquid debt instruments with original maturities of three months or less, including amounts limited as to use by the Board of Commissioners. Certificates of deposit with original maturities of more than three months are presented separately in the accompanying balance sheets.

Short-term Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are carried at fair value. Short-term investments consist primarily of mutual funds. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating income when earned.

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Commissioners for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts that are required for obligations classified as current liabilities are reported as current assets, with the balance reported as non-current assets.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
For the Years Ended June 30, 2001 and 2000**

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Allowance for Doubtful Accounts

An allowance for doubtful accounts is established based on management's assessment of collectibility, current economic conditions, and prior experience.

Inventories

Inventories, consisting primarily of medical supplies and drugs, are stated at the lower of cost (first-in, first-out method) or market.

Prepaid Expenses and Deferred Charges

Prepaid expenses are amortized over the estimated period of future benefit, generally on a straight-line basis. Deferred financing costs are amortized over the term of the related debt on the interest method.

Property and Equipment

Property and equipment are stated at historical cost. Donated property is recorded at its estimated fair value on the date of receipt, which is then treated as cost. Additions, renewals, and betterments that extend the life of assets are capitalized. Maintenance and repair expenditures are expensed as incurred. Interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Depreciation has been provided using the straight-line method over the estimated useful lives of the related assets, which range from 2 to 40 years.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gains or losses are recognized in the Hospital's yearly operations.

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Financing costs are amortized over the period that the related obligation is outstanding using the interest method.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
For the Years Ended June 30, 2001 and 2000**

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Compensated Absences

Hospital policy is to compensate employees for absences due to earned vacation and sick leave. Accumulated vacation and sick pay are accrued at the balance sheet date because they are payable upon termination of employment.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The Hospital provides medical care to patients who meet certain criteria established under its charity care policy without charge or at rates substantially lower than its prevailing rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employees injuries and illnesses; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage during the past several years. The Hospital is self-insured for employee health and dental benefits.

Income Taxes

For income tax purpose, the Hospital is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code. Accordingly, no provision for income taxes on related income has been included in the financial statements.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
For the Years Ended June 30, 2001 and 2000**

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Reclassifications

Certain reclassifications have been made to the 2000 financial statements to conform with the 2001 presentation.

Note 2. Net Patient Service Revenue and Accounts Receivable

The Hospital has agreements with governmental and other third-party payors that provide for payments to the Hospital at amounts different from its established rates. Patient revenue is reported net of contractual adjustments arising from these third-party arrangements. Contractual adjustments under third-party reimbursement programs represent the differences between the Hospital's billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with third-party payors follows:

Medicare - Inpatient acute care services and certain outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates-per-discharge or occurrence. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Certain types of exempt inpatient services and outpatient services related to Medicare beneficiaries are paid based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid - Inpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate-per-diem that includes capital costs. Certain types of outpatient services are paid based upon a cost reimbursement methodology. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and an audits thereof by the Medicaid fiscal intermediary.

The Hospital has also entered into agreements with certain commercial insurance carriers and preferred provider organizations. Payment methodologies under these agreements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
For the Years Ended June 30, 2001 and 2000**

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

Amounts receivable or payable under reimbursement agreements with the Medicare and Medicaid programs are subject to examination and retroactive adjustments. Provisions for estimated retroactive adjustments under such programs are provided for in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Presented below is a summary of net patient service revenues for the years ended June 30, 2001 and 2000:

	2001	2000
Gross patient service revenue	\$ 76,000,917	\$ 66,083,797
Less estimated contractual adjustments under agreements with third-party payors	<u>(37,273,943)</u>	<u>(31,460,440)</u>
Net patient service revenue	<u>\$ 38,726,974</u>	<u>\$ 34,623,357</u>

Patient accounts receivables at June 30, 2001 and 2000 consists of the following:

	2001	2000
Accounts receivable - patients	\$ 15,164,329	\$ 14,331,892
Less: Allowance for uncollectible accounts	(1,755,386)	(1,682,549)
Allowance for contractual adjustments	<u>(6,438,347)</u>	<u>(6,820,119)</u>
Total allowances	<u>(8,193,733)</u>	<u>(8,502,668)</u>
Net patient accounts receivable	<u>\$ 6,970,596</u>	<u>\$ 5,829,224</u>

Note 3. Cash and Investments

At June 30, 2001 and 2000, the carrying value of the Hospital's deposits were as follows:

	2001	2000
Petty cash	\$ 2,700	\$ 3,044
Demand deposit accounts	1,138,818	4,154,965
Certificates of deposit	8,650,000	4,200,000
Short-term investments	<u>4,197,979</u>	<u>4,395,260</u>
	<u>\$ 13,989,497</u>	<u>\$ 12,753,269</u>

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For the Years Ended June 30, 2001 and 2000**

NOTES TO FINANCIAL STATEMENTS

Note 3. Continued

Under state law, these deposits must be secured by either federal deposit insurance or by the pledge of securities owned by a fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal or exceed the amount on deposit with the fiscal agent bank. At June 30, 2001, the Hospital had \$10,275,032 in deposits (collected bank balances). Of these bank balances, \$200,000 was covered by federal depository insurance, and the remainder was secured by collateral held by the fiscal agent bank in the name of the Hospital (GASB category 2). The certificates of deposits listed above include \$1,450,000 of deposits presented as cash and cash equivalents on the accompanying balance sheets for the years ended June 30, 2001 and 2000.

Under Louisiana Revised Statutes 39:1271 and 33:2955, the Hospital may deposit funds in demand deposit accounts, interest-bearing demand deposit accounts, money market accounts, and time certificates of deposit with state banks organized under Louisiana law and national banks having principal offices in Louisiana. Additionally, Louisiana statutes allow the Hospital to invest in direct obligations of the U.S. Government, federally insured instruments, guaranteed investment contracts issued by certain financial institutions, and mutual or trust funds registered with the Securities and Exchange Commission.

Note 4. Property and Equipment

Net property and equipment at June 30, 2001 and 2000 consisted of the following:

	2001	2000
Land and land improvements	\$ 1,569,045	\$ 1,569,045
Buildings	25,867,158	25,457,460
Fixed equipment	3,715,912	3,715,912
Movable and other equipment	16,859,724	16,647,689
Physicians' office buildings and equipment	3,027,438	3,020,516
	51,039,277	50,410,622
Less: accumulated depreciation	(22,699,347)	(21,823,728)
Property and equipment, net	<u>\$ 28,339,930</u>	<u>\$ 28,586,894</u>

Depreciation expense amounted to \$2,263,329 and \$2,206,132 during the years ended June 30, 2001 and 2000, respectively.

Additions to property and equipment included approximately \$124,500 of capitalized interest during the year ended June 30, 2000.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
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For the Years Ended June 30, 2001 and 2000**

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-term Debt

A summary of long-term debt at June 30, 2001 and 2000 was as follows:

	2001	2000
Hospital Revenue and Refunding Bonds (Series 1996); interest rates ranging from 4.75% to 5.60%; due in varying semi-annual installments through February 1, 2011 secured by the operating revenues of the Hospital and additional property as defined in the trust indenture.	\$ 6,360,000	\$ 6,835,000
Hospital Revenue and Refunding Bonds (Series 2000); variable interest rates; due in monthly installments through November 20, 2010; secured by operating revenues and property of the Hospital as defined in the trust indenture.	3,228,571	-
Hospital Revenue and Refunding Bonds (Series 2001); variable interest rates; due in monthly installments through November 20, 2010; secured by operating revenues and property of the Hospital as defined in the trust indenture.	1,090,351	-
Total long-term debt	10,678,922	6,835,000
Less current maturities	(958,647)	(475,000)
Long-term debt, net of current maturities	<u>\$ 9,720,275</u>	<u>\$ 6,360,000</u>

The amortization expenses related to deferred financing costs totaled \$5,017 and \$4,404 during the years ended June 30, 2001 and 2000, respectively.

The outstanding bonds are scheduled to mature as follows:

Year Ending June 30,	Amount
2001	\$ 958,647
2002	983,647
2003	1,008,647
2004	1,043,647
2005	1,073,647
Thereafter	<u>5,610,687</u>
Total Long-Term Debt	<u>\$ 10,678,922</u>

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
For the Years Ended June 30, 2001 and 2000**

NOTES TO FINANCIAL STATEMENTS

Note 5. Continued

As part of the Bond agreement, the Hospital has agreed to comply with various covenants. The covenants consist primarily of reporting and audit requirements, insurance coverage, restrictions on additional debt, maintenance of various deposit accounts, and other administrative requirements. The Hospital was in compliance with all of the applicable covenants at June 30, 2001.

Note 6. Insurance Programs

The Hospital has a self-insured retention of \$100,000 per claim for its coverage of professional liability; additional coverage is provided by the Louisiana Patient's Compensation Fund for the next \$400,000 of professional liability up to the present statutory maximum of \$500,000 per claim (exclusive of additional amounts for future medical expense provided by law).

The Hospital also has a \$100,000 self-insurance retention for its coverage of general liability with a limit of \$1,000,000 per occurrence and with no annual aggregate. An additional umbrella excess general liability policy provides additional excess coverage of \$9,000,000 per occurrence and \$9,000,000 per annual aggregate.

The Hospital is also self-insured for medical, dental, and workers' compensation claims up to predetermined stop-loss amounts. Claims in excess of the stop-loss amounts are insured through commercial insurance carriers. The Hospital has reflected its estimate of the ultimate liability for known and incurred but not reported claims in the accompanying financial statements.

Note 7. Pension Plan

The Hospital sponsors the Lane Memorial Hospital Retirement Plan (the Plan), a contributory defined benefit pension plan, in an attempt to provide retirement and death and disability benefits to substantially all of its employees.

Plan Description

All employees who have at least two years of continuous service and have worked an average of 20 or more hours a week are eligible to join the plan on its next anniversary date. Employees who retire at or after the age of 62 are entitled to a retirement benefit, payable monthly for life, equal to 1.5 percent of their monthly earnings for the highest 3 anniversary dates preceding retirement or termination for each year of creditable service. Plan benefits vest on a graded scale beginning at 25 percent for 5 years of service and increasing 5 percent per annum for each of the next 5 years and 10 percent per annum for each of the following 5 years.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
For the Years Ended June 30, 2001 and 2000**

NOTES TO FINANCIAL STATEMENTS

Note 7. Continued

Employees leaving employment after five years of creditable service but before attaining retirement age are entitled to benefits upon reaching retirement age equal to their accrued benefits upon termination of employment. The Plan also provides death and disability benefits.

The Plan issues an annual publicly available financial report that includes financial statements and required supplementary information, including 10-year historical trend information. The report may be obtained by writing to Lane Memorial Hospital, 6300 Main Street, Zachary, Louisiana 70791, or by calling (225) 658-4000.

Funding Policy

Employees are required to contribute 1 percent of their monthly earnings up to \$400 plus 2 percent of their monthly earnings in excess of \$400. The Hospital's payroll totaled \$19,253,136; \$17,590,917; and 16,768,499 during the years ended June 30, 2001, 2000, and 1999, respectively, and covered payroll (compensation paid by the Hospital to active employees covered by the Plan on which contributions to the Plan are based) totaled \$10,955,518; \$10,637,475; \$9,745,773 during the years ended June 30, 2001, 2000, and 1999, respectively.

The Hospital is required to contribute the actuarially determined amounts necessary to fund normal costs plus an additional amount necessary to amortize unfunded past service costs over a 20-year period (from the date that the past service cost was first recognized). The Hospital, however, is not allowed to contribute more than the amount necessary to achieve a ratio of "actuarial value of assets" to the "present value of accrued benefits" of 150% determined as of the beginning of the Plan year. No contributions were made during the year ended June 30, 2001, the year ended June 30, 2000, or the year ended June 30, 1999.

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation.

Funding Status

The amount shown below as a pension benefit obligation was determined as part of an actuarial valuation as of June 30, 2001, as a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employees service-to-date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons with other plans. The measure is independent of the actuarial funding methods used to determine contributions to the Plan.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
For the Years Ended June 30, 2001 and 2000**

NOTES TO FINANCIAL STATEMENTS

Note 7. Continued

Assumptions used in accounting for the net periodic pension cost were as follows:

	2001	2000	1999
Discount rates	8.00%	8.00%	8.00%
Rates of increase in compensation levels	4.00%	4.00%	4.00%
Expected long-term rate of return on assets	8.00%	8.00%	8.00%

The following tables set forth the plan's funded status as of June 30, 2001, 2000, and 1999:

	06-30-01	06-30-00	06-30-99
Actuarial value of plan assets	\$ 13,521,947	\$ 13,652,959	\$ 12,931,694
Actuarial accrued liability	12,867,783	12,899,424	12,144,395
Funded excess	654,164	753,535	787,299
Funded ratio	105.10%	105.84%	106.48%
Annual covered payroll	10,955,518	10,637,475	9,745,773
Funded excess as a percentage of annual covered payroll	5.97%	7.08%	8.08%

The Hospital had no annual required contribution, annual pension cost or net pension obligation at June 30, 2001, 2000, or 1999, as calculated under GASB 27 "Accounting for Pensions by State and Local Governmental Employers".

Plan assets consist principally of cash equivalents, equity securities, and fixed income funds.

Note 8. Business and Credit Concentrations

Financial instruments which potentially subject the Hospital to concentrations of credit risk consist principally of unsecured accounts receivable.

The Hospital grants credit to patients, substantially all of whom are local residents. The Hospital generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross and commercial insurance policies).

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
For the Years Ended June 30, 2001 and 2000**

NOTES TO FINANCIAL STATEMENTS

Note 8. Continued

The mix of receivables from patients and third-party payors at June 30, 2001 and 2000, was as follows:

	2001	2000
Medicare	24%	26%
Medicaid	7	8
Commercial insurance companies and health maintenance organizations	47	42
Self-pay patients and other	22	24
	<u>100%</u>	<u>100%</u>

Note 9. Other Operating Revenues

Other operating revenues recognized during the years ended June 30, 2001 and 2000 consisted of the following:

	2001	2000
Contract services	\$ 68,614	\$ 431,296
Satellite revenues	4,058,797	3,584,433
Cafeteria revenues	331,311	337,856
Physician services	135,347	116,116
Other	145,562	115,326
	<u> </u>	<u> </u>
Total Other Operating Revenues	<u>\$ 4,739,631</u>	<u>\$ 4,585,027</u>

Note 10. Commitments and Contingencies

The Hospital is involved in various legal actions and claims that arose as a result of events that occurred in the normal course of operations. The ultimate resolution of these matters is not ascertainable at this time; however, management is of the opinion that any liability or loss in excess of insurance coverage resulting from such litigation will not have a material effect upon the financial position of the Hospital. Accordingly, no provision has been made in the financial statements related to these claims.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
For the Years Ended June 30, 2001 and 2000**

NOTES TO FINANCIAL STATEMENTS

Note 11. Prior Period Adjustment

During the fiscal year ended June 30, 2001, the Hospital determined that its estimated third-party payor settlements had been calculated incorrectly for several periods prior to June 30, 2001.

Consequently, the July 1, 1999 fund balance and net patient service revenue for the year ended June 30, 2000, have been restated to correct the effect of the error. This restatement resulted in an increase in estimated third-party payor settlements and a decrease in fund balance of \$820,239 at June 30, 2000 and a reduction in net patient service revenues of approximately \$394,009 for the year ended June 30, 2000.

Note 12. Pronouncements Issued Not Yet Adopted

GASB (Government Accounting Standards Board) Standard 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," is initially phased in for fiscal years beginning after June 15, 2001. Based upon its revenues, the Hospital will be required to implement GASB 34 in the period beginning after June 15, 2002 (fiscal year ending June 30, 2003). Hospitals are identified in GASB 34 as special purpose governments required only to implement applicable portions of the statement. The pronouncement will require that the Hospital's financial statements be introduced by a narrative prepared by Management, called "Management's Discussion and Analysis (known as MD&A). MD&A will present an analytical overview of the Hospital's financial activities and will include selected required supplementary information.



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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

The Board of Commissioners
Hospital Service District No. 1 of
East Baton Rouge Parish, Louisiana
d/b/a Lane Memorial Hospital

Our independent auditors' report on the financial statements of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana (d/b/a Lane Memorial Hospital) as of and for the year ended June 30, 2001 appears on pages 1 and 2. Our audit was made for the purpose of forming an opinion on the financial statements as a whole. The required supplemental schedule contained on page 23, which is also the responsibility of the Hospital's management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The supplementary information for the year ended June 30, 2000 was audited by other auditors whose report dated August 28, 2000, expressed an unqualified opinion on such information in relation to the basic financial statements taken as a whole.

Horne CPA Group

Jackson, Mississippi
August 17, 2001

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Schedules of Board of Commissioners and Salaries
Years Ended June 30, 2001 and 2000

	2001	2000
Hubert C. Owens, M.D.	\$ 275	\$ 300
Nick Adams	275	275
Jerry Broudreux	250	300
Etta Kay Hearn	275	250
Catherine Pourciau	250	275
Robert Williams, Jr.	300	225
Steve Stein	300	275
	<u>\$ 1,925</u>	<u>\$ 1,900</u>